

BELLSOUTH

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February 14, 1997

RECEIVED

FEB 14 1997

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Washington, DC 20554

FEB 14 1997

RE: CC Docket 96-262 and CC Docket 96-45

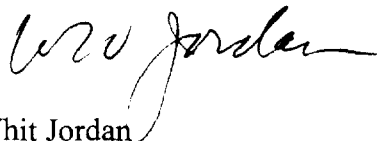
Dear Mr. Caton:

This is to inform you that on February 13, 1997, F. Duane Ackerman, David Markey, and the undersigned, all of BellSouth Corporation, met with Commissioner Chong, Dan Gonzales, and Gail McGuire of the Commission concerning the above referenced subjects.

The purpose of the meetings was to discuss issues relating to access charge reform and universal service. The attached charts and slides were discussed during the meetings. The discussion was consistent with BellSouth's position already filed in these proceedings.

Please associate this notification with the referenced proceedings. I am available to address questions and comments.

Sincerely,



Whit Jordan

cc: Commissioner Chong
Dan Gonzales
Gail McGuire

BELLSOUTH

Ex Parte
Access Reform and Universal Service
CC Dockets 96-262 and 96-45

February 13, 1997

Access Reform

Revenue neutrality on day one is key:

- ◆ Revenue losses due to competition will occur immediately
- ◆ Maintaining the incentives of price regulation will promote network investment

A market based approach to access reform is needed:

- ◆ Letting competitive market determine access prices is consistent with the deregulatory intent of the Telecom Act of 1996
- ◆ Builds off success of the existing price regulation plan
- ◆ Will encourage competitive entry into local phone markets

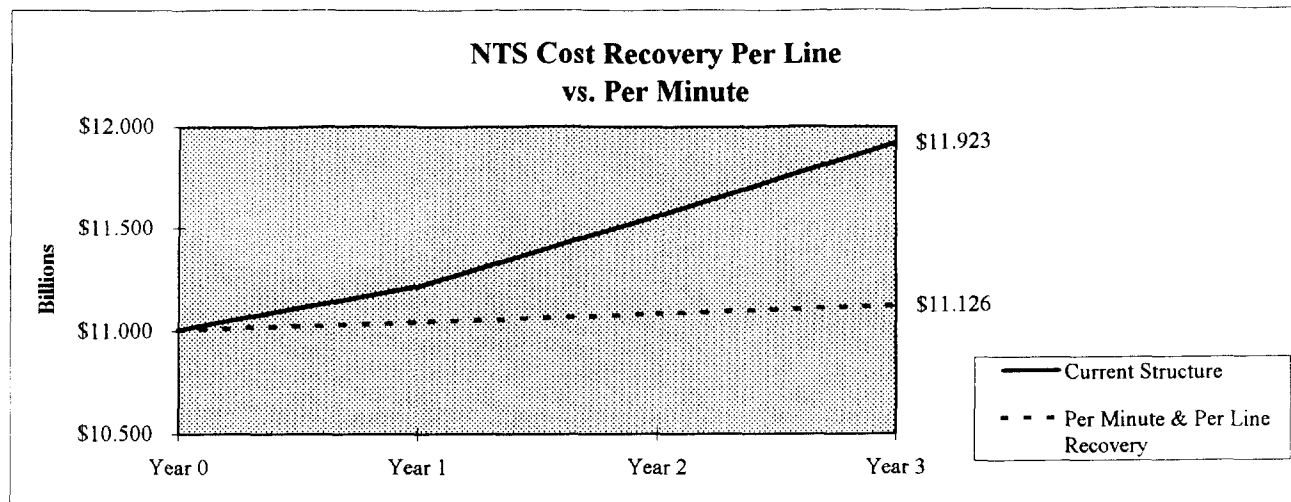
A prescriptive approach to access reform should not be implemented:

- ◆ “Reinitializing” price cap plans would represent a return to rate-of return regulation
- ◆ Companies must have a fair opportunity to recover their actual costs; prices based on TSLRIC would preclude that opportunity
- ◆ Existing rates are reasonable and the record does not support reinitialization or a higher productivity factor
- ◆ Would discourage facilities based competition
- ◆ Would seriously dampen the incentive to invest in the network

Some reform is needed regardless of which approach is used:

- ◆ In a competitive environment, loop and other non-traffic sensitive costs should be recovered through per line rather than per minute charges
- ◆ Recovering non-traffic sensitive costs through per line vs. per minute charges will significantly reduce IXCs access costs

\$1.4 Billion Dollar IXC Savings
Network NTS Cost Recovery on a Per Line Basis



	Year 0	Year 1	Year 2	Year 3	Sum Year 1-3
Price Cap Assumptions					
Inflation	3.00%	3.00%	3.00%	3.00%	
Productivity	5.30%	5.30%	5.30%	5.30%	
g - Factor	3.40%	3.40%	3.40%	3.40%	
Non CCL Price Change	-2.30%	-2.30%	-2.30%	-2.30%	
CCL Price Change	-3.93%	-3.93%	-3.93%	-3.93%	
Growth Rates					
Line	3.0%	3.0%	3.0%	3.0%	
Minutes	6.5%	6.5%	6.5%	6.5%	
Demand					
Interstate Minutes (Billions)	407.50	433.99	462.20	492.24	
Lines (Millions)	142.68	146.96	151.37	155.91	

Existing Structure Revenue

End User Common Line	\$ 7.100	\$ 7.313	\$ 7.532	\$ 7.758	
EUCL per MOU	\$ 0.017423	\$ 0.016851	\$ 0.016297	\$ 0.015761	
CL per MOU	\$ 0.025723	\$ 0.024712	\$ 0.023740	\$ 0.022807	
CCL per Minute	\$ 0.0083	\$ 0.0076	\$ 0.0072	\$ 0.0068	
Traffic Sensitive	\$ 0.0187	\$ 0.0183	\$ 0.0178	\$ 0.0174	
Access Price per Minute	\$ 0.0270	\$ 0.0258	\$ 0.0250	\$ 0.0242	
Interstate Revenue (without EUCL)	\$ 11.003	\$ 11.218	\$ 11.564	\$ 11.923	\$ 34.705

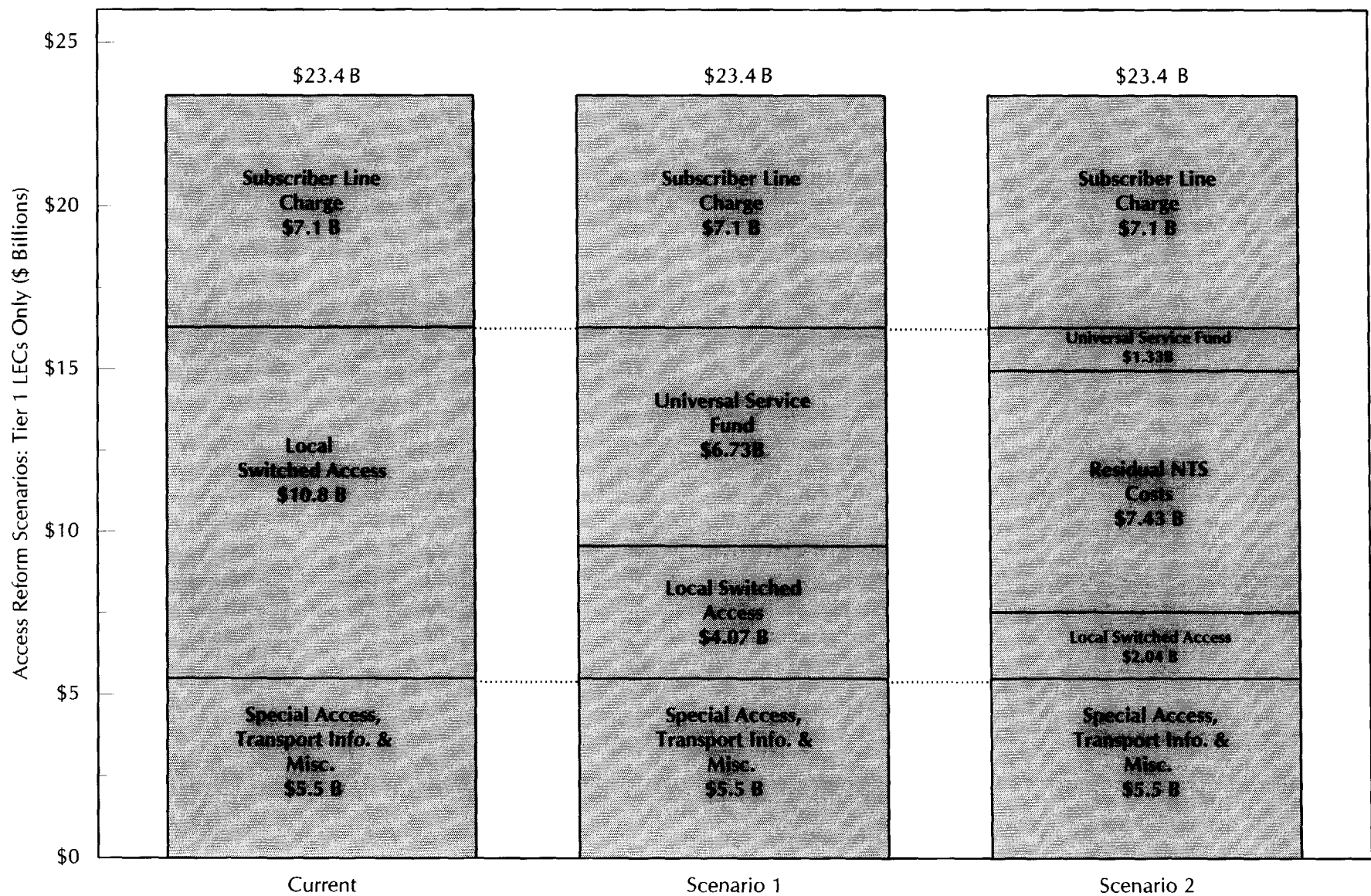
Per Minute and Per Line Recovery

Price Per Minute w/ Price Caps	\$ 0.0100	\$ 0.0098	\$ 0.0095	\$ 0.0093	
Per Minute Revenue	\$ 4.075	\$ 4.240	\$ 4.412	\$ 4.591	
End User Common Line Revenue	\$ 7.100	\$ 7.313	\$ 7.532	\$ 7.758	
Price Cap Reduction EUCL		\$ (0.168)	\$ (0.343)	\$ (0.523)	
Price Cap Reduction EUCL per Line		\$ (1.145)	\$ (2.263)	\$ (3.355)	
Cost Recovery per Line	\$ 48.55	\$ 47.43	\$ 46.34	\$ 45.28	
Cost Recovery per Line w/ EUCL Reduction	\$ 48.55	\$ 46.29	\$ 44.08	\$ 41.92	
Total Recover per Line	\$ 6.927	\$ 6.803	\$ 6.672	\$ 6.536	
Interstate Revenue (without EUCL)	\$ 11.002	\$ 11.043	\$ 11.084	\$ 11.126	\$ 33.253
Savings to IXCs (Billions)	\$ 0.000	\$ 0.176	\$ 0.480	\$ 0.796	\$ 1.452

Access Reform and Universal Service Must Be Considered Together

- ◆ A large federal universal service fund, approximately \$8 billion in size for high cost support, would make interstate support explicit per the Telecom Act of 1996
- ◆ Any support not handled via the universal service fund should be recovered from IXC's through per presubscribed line charges
- ◆ Access prices should be reduced to reflect the net amount of funding received from the universal service fund
- ◆ Companies must have a way to recover their universal service fund obligations
 - The most economically efficient solution would be surcharge on all telecommunications retail revenues
 - If not a surcharge, then per line recovery from IXC's is needed
- ◆ Universal service is premised on providing support to high cost areas -- it is not "inequitable" for such support to flow from low cost areas or companies to high cost areas or companies
- ◆ Up-front rate reductions in access revenues would breach the price cap bargain and would discourage investment in the infrastructure

Access Charge Reform Scenarios



Cost Recovery Mechanisms:

USF Surcharge	N/A	4.0% of all Retail Revenue	1.6% of Interstate Revenue
NTS Cost Per Line	N/A	N/A	\$4.34/month
Local Switched Rates	2.7 cents/minute	1 cent/minute	0.5 cent/minute